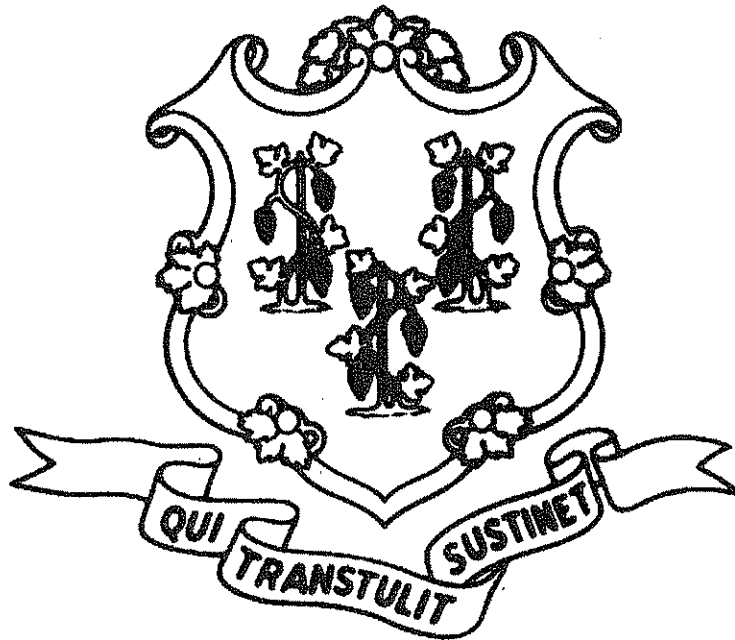


# Connecticut General Assembly

## OFFICE OF FISCAL ANALYSIS

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## FY 10 Projected Deficiencies

Prepared for  
Appropriations Committee Hearing  
November 18, 2009



# Connecticut General Assembly



## OFFICE OF FISCAL ANALYSIS

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**November 18, 2009**

### **OFA's Deficiency Hearing Testimony Geary Maher, Director**

Good afternoon Chairpersons, Ranking Members and Committee members.

Thank you for the opportunity to give you an overview of the information provided by OFA.

As indicated during this morning's budget presentation, OFA is projecting a \$385.9 million deficit for FY 10 due to a combination of declining revenues (\$176.9 million) and increased expenditure requirements (\$211.1 million) including the following state agency deficiencies, partially offset by the budgeted surplus (\$2.1 million).

We currently project the following state agency deficiency needs totaling \$205.9 million in FY 10 in addition to several other potential deficiencies that we will continue to monitor:

- 1) \$72.7 million for the Department of Social Services;
- 2) \$60.9 million for the Retired State Employees Health Service Cost;
- 3) \$21.5 million for the Department of Correction;
- 4) \$18.2 million for the Department of Developmental Services;
- 5) \$ 8.3 million for the Department of Public Works;
- 6) \$ 5.7 million for the Department of Mental Health and Addiction Services;
- 7) \$ 5.5 million for the Department of Public Health;
- 8) \$ 4.5 million for the Judicial Department;
- 9) \$ 3.3 million for the Department of Public Safety;
- 10) \$ 2.0 million for the Department of Revenue Services;
- 11) \$ 2.0 million for the Workers' Compensation Claims account – DAS; and
- 12) \$ 1.3 million for the Department of Administrative Services.

Our report provides the reasons for all of these projected deficiencies and assumes that any available lapsing dollars will be transferred through Finance Advisory Committee (FAC) action to mitigate deficiencies within the affected agencies. At this time, we have not assumed that holdbacks from various accounts will be released to help mitigate the deficiencies as well.

It should be noted that the FY 10 budget is currently under the spending cap by \$840.9 million.

State agencies are assembled here today to further explain the reasons for their deficiencies. Until final deficiency needs are determined during the final weeks of the 2010 legislative session, OFA will be happy to continue assisting the Appropriations Committee and as well as all members of the General Assembly in furthering their understanding of deficiency needs and the several options that exist for funding them (i.e., appropriations and/or internal and external agency transfers).

Thank you for your attention and I would be happy to answer any questions that you might have.



# **Appropriations Committee FY 10 Deficiency Public Hearing**

	OPM 11/15/09	OFA 11/13/09	Difference
Department of Public Works	\$ (8,300,000)	\$ (8,300,000)	\$ -
Department of Public Safety	\$ (3,300,000)	\$ (3,300,000)	\$ -
Department of Public Health	\$ (4,000,000)	\$ (5,500,000)	\$ (1,500,000)
Department of Developmental Services	\$ (21,700,000)	\$ (18,200,000)	\$ 3,500,000
Department of Mental Health & Addiction Services	\$ (13,800,000)	\$ (5,702,872)	\$ 8,097,128
Department of Social Services	\$ (73,500,000)	\$ (72,700,000)	\$ 800,000
Department of Correction	\$ (21,500,000)	\$ (21,500,000)	\$ -
Judicial	\$ (5,500,000)	\$ (4,500,000)	\$ 1,000,000
Fringe Benefit Account - Retiree Health	\$ (60,900,000)	\$ (60,900,000)	\$ -
Department of Revenue Services	\$ -	\$ (2,000,000)	\$ (2,000,000)
Department of Administrative Services	\$ -	\$ (1,314,068)	\$ (1,314,068)
Department of Administrative Services - Workers Comp	\$ -	\$ (2,000,000)	\$ (2,000,000)
<b>Total - Additional Requirements</b>	<b>\$ (212,500,000)</b>	<b>\$ (205,916,940)</b>	<b>\$ 6,583,060</b>



**Projected FY 10 General Fund Deficiencies  
November 18, 2009**

**Department of Public Works**

<b>OPM Net Deficiency (\$8,300,000)</b>	<b>OFA Net Deficiency (\$8,300,000)</b>
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The Department of Public Works has a projected net deficiency of \$8.3 million, which represents 15.2% of its FY 10 appropriation of \$54.7 million. This assumes that holdbacks totaling \$9.3 million are not released. If the holdbacks were released, the estimated deficiency would be eliminated.

The agency's projected FY 10 budget shortfall of \$8.3 million is composed of \$4 million in Other Expenses, \$2.3 million in Rents and Moving, \$1 million in Property Management Services and \$1 million in Facilities Design Expenses. The deficiencies are a result of anticipated savings associated with operating efficiencies and renegotiation of office space leases that the agency is unlikely to achieve in FY 10.

The Facilities Design Expenses account funds the agency's oversight of the planning, design and construction of state buildings as well as the provision of technical assistance to all state-managed institutions. The Property Management Services account supports the agency's administration of the operation, maintenance and security of state-owned occupied and vacant buildings. The Rents and Moving account finances the agency's efforts to assist state agencies in determining their space requirements, leasing real property and expediting physical moves into new office space.

**Department of Public Safety**

<b>OPM Net Deficiency (\$3,300,000)</b>	<b>OFA Net Deficiency (\$3,300,000)</b>
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The Department of Public Safety (DPS) has a projected deficiency of \$3.3 million, which represents 1.9% of its FY 10 appropriation of \$170.4 million. This assumes that a bottom-line holdback of \$25.1 million for the agency is not released.

The projected deficiency is in Fleet Purchase, which is largely due to the application of a \$3.3 million contract savings holdback to the account that cannot be achieved. DPS leases vehicles from the Department of Administrative Services (DAS) through monthly payments to DAS over a 48-month period (after

which DPS continues to pay a nominal administration and insurance fee to DAS). If the \$3.3 million holdback in this account is not released, it is anticipated that DPS will not be able to pay DAS fleet invoices going forward beginning in December. It is unclear if this will result in agency vehicles being removed from service.

#### **Department of Public Health**

<b>OPM Net Deficiency (\$4,000,000)</b>	<b>OFA Net Deficiency (\$5,500,000)</b>
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The Department of Public Health has a projected a net deficiency of \$5.5 million, which represents 6.2% of its FY 10 appropriation of \$88 million. This assumes that holdbacks totaling \$6.7 million for the agency are not released. If the holdbacks were released, the estimated deficiency would be eliminated.

The deficiency is attributable to Personal Services (\$3.0 million) and Other Expenses (\$2.5 million). The Personal Services shortfall is due to greater than budgeted staffing expenses. The Other Expenses deficiency is primarily attributable to costs associated with maintaining: 1) current operations at the state laboratory and 2) on-line licensing system vendor costs.

#### **Department of Developmental Services**

<b>OPM Net Deficiency (\$21,700,000)</b>	<b>OFA Net Deficiency (\$18,200,000)</b>
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The Department of Developmental Services has a projected net deficiency of \$18.2 million, which represents 1.8% of its FY 10 appropriation of \$1,002 million. This assumes that holdbacks totaling \$23.3 million are not released. If these holdbacks were released the deficiency would be eliminated.

A gross deficiency of \$21.7 million is due to the anticipated shortfalls in the following accounts: Workers' Compensation Claims (\$2.0 million) due to higher than budgeted monthly claims; Other Expenses (\$2.3 million) resulting from higher than budgeted costs; Voluntary Services Program (\$2.5 million) due to unbudgeted caseload growth in both out-of-home placements and children eligible for services; Community Residential Services (\$5.9 million) resulting from unbudgeted development needs and the conversion of clients from state operated to privately-provided services; and Early Intervention (\$9 million) due to unbudgeted caseload growth, increase in service hours paid at the supplemental rates and the anticipated delay in the implementation of increased parent fees and insurance reimbursement.

It is anticipated that the cost of the conversion of services in the Community Residential Services account will be offset by the remaining savings associated



with the conversion in the Personal Services account, \$3.5 million, via an anticipated Finance Advisory Committee (FAC) transfer.

**Department of Mental Health and Addiction Services**

<b>OPM</b> <b>Net Deficiency</b> <b>(\$13,800,000)</b>	<b>OFA</b> <b>Net Deficiency</b> <b>(\$5,702,872)</b>
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The Department of Mental Health and Addiction Services has a projected net deficiency of \$5.7 million, which represents 0.82% of its FY 10 appropriation of \$687 million (includes Disproportionate Share expenditures). This assumes that holdbacks totaling \$31.1 million are not released. If the holdbacks were released, the net deficiency would be eliminated.

A gross deficiency of \$9.7 million is attributable to Other Expenses (\$5.0 million), Discharge and Diversion Services (\$4.0 million) and Professional Services (\$0.7 million). The Other Expenses and Professional Services deficiencies are a result of an increased use of contracted doctors to provide coverage for retired state employees. The Discharge and Diversion Services deficiency results from providing community support for inpatient clients discharged due to the closure of inpatient psychiatric beds at Cedarcrest Hospital. It is anticipated that \$4.0 million available in the Personal Services account will be transferred to cover some of the shortfall resulting in a \$5.7 million net deficiency, via an anticipated Finance Advisory Committee (FAC) transfer.

**Department of Social Services**

<b>OPM</b> <b>Net Deficiency</b> <b>(\$73,500,000)</b>	<b>OFA</b> <b>Net Deficiency</b> <b>(\$72,700,000)</b>
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The Department of Social Services (DSS) has a projected net deficiency of \$72.7 million, which represents 1.4% of its FY 10 appropriation of \$5.1 billion. This assumes that holdbacks totaling \$35.6 million are not released. If the holdbacks were released, the estimated deficiency would be reduced.

The DSS shortfall is primarily in the Medicaid account. The FY 10 budget included significant savings (\$102.9 million) related to managing the fee-for-service population, implementing special needs plans, and reducing the HUSKY Program's managed care rates. Given the late passage of the budget as well as the complexities of implementing these policies, it is unlikely that the full savings will be achieved in FY 10.

Additionally, deficiencies are projected in the Other Expenses (\$9.5 million), HUSKY B (\$5 million), Charter Oak (\$6 million), Connecticut Home Care (\$4 million) and Temporary Family Assistance (\$3.5 million) accounts. These

deficiencies are largely due to caseload changes, but are also impacted by the late implementation of certain savings initiatives assumed in the budget.

These deficiencies are offset by projected lapses in the Child Care Subsidies (\$10.7 million) and State Administered General Assistance (SAGA) (\$12 million) accounts. The Child Care Subsidies surplus is related to the continued enrollment closure of the higher income, non-entitlement portions of the program. Under SAGA, the budget included appropriations for higher provider rates, contingent on the Federal government approving the inclusion of SAGA in the Medicaid program. As this approval has not yet been received, the higher SAGA rates have not gone into effect.

In addition to the assumed policy changes noted above, the FY 10 budget included significant savings associated with a variety of programmatic restructuring in this department. To the extent that these changes are delayed, or the final implementation does not achieve the savings targets assumed in the budget, a higher deficiency under DSS may result.

**Department of Correction**

<b>OPM</b>	<b>OFA</b>
<b>Net Deficiency</b>	<b>Net Deficiency</b>
<b>(\$21,500,000)</b>	<b>(\$21,500,000)</b>

The Department of Correction has a projected net deficiency of \$21.5 million, which represents 3.1% of its FY 10 appropriation of \$694.1 million. This assumes that various holdbacks of approximately \$37.0 million (\$17.4 million in Personal Services and \$19.5 million in Other Expenses) are not released. If the holdbacks were released, the agency would not have a deficiency.

The \$21.5 million deficiency occurs in two areas: Other Expenses (\$17.0 million), and Workers' Compensation Claims (\$4.5 million).

The shortfall in Other Expenses is due to an inability to achieve a reduced appropriation (the FY 10 appropriation, not including holdbacks, is approximately \$700,000 less than the FY 09 appropriation) as well as various other savings initiatives including policies on managing the prison population.

The shortfall in Workers' Compensation Claims is due to medical expenditures in both August and September that are higher than expected. The FY 10 appropriation level of \$24.9 million is \$1.7 million lower than the amount expended on Workers' Compensation in FY 09.

The \$21.5 million deficiency assumes that a transfer from the Reserve for Salary Adjustment Account will occur to offset any deficiency in Personal Services (which is now estimated to be \$12.5 million).

**Judicial Department**

<b>OPM</b> <b>Net Deficiency</b> <b>(\$5,500,000)</b>	<b>OFA</b> <b>Net Deficiency</b> <b>(\$4,500,000)</b>
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The Judicial Department has a projected net deficiency of \$4.5 million, which represents 0.9% of its FY 09 gross appropriation of \$498.1 million. This assumes that various holdbacks totaling approximately \$30.2 million are not released.

A deficiency of approximately \$4.5 million is projected within the Other Expenses line item. The net appropriation (less various allotment holdbacks to achieve savings) in this account is approximately \$6.7 million less than FY 09 actual spending, and \$8.3 million less than FY 09 spending plus necessary significant increases to maintain current services.<sup>1</sup>

The \$4.5 million projected deficiency in Other Expenses assumes the implementation of various service reductions and savings indicated by the Judicial Department in its October 1, 2009, letter to legislative leadership and the chairs/ranking members of the Appropriations and Judiciary Committees. Included among the initiatives in that letter is the shifting of an estimated \$3.3 million in certain costs<sup>2</sup> from the Other Expenses line item to the Juvenile Alternative Incarceration (JAI) line item.

The shifting of \$3.3 million in costs to the JAI line item will necessitate either: (1) a reduction in other services supported through that line item, including the planned expansion of Family Support Centers; or (2) an additional deficiency appropriation of up to \$3.3 million.

**OSC Fringe Benefit Account - Retired State Employees Health Service Cost**

<b>OPM</b> <b>Net Deficiency</b> <b>(\$60,900,000)</b>	<b>OFA</b> <b>Net Deficiency</b> <b>(\$60,900,000)</b>
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The Retired State Employees Health Service Cost account budgeted in the Miscellaneous Accounts administered by the State Comptroller has a projected net deficiency of \$60.9 million, which represents 12.6% of its FY 10 appropriation of \$482.9 million. This assumes that holdbacks totaling \$128.3 million for the other fringe benefit accounts are not released. If the holdbacks were released, the estimated deficiency would be eliminated.

<sup>1</sup> Necessary increases to maintain current service levels: \$750,931 to annualize the additional cost of the new Bridgeport Juvenile Detention Center; \$537,480 to cover increased utility costs; and \$250,000 to implement a new inmate victim notification system required under PA 08-1 of the JSS.

<sup>2</sup> These costs are medical and other direct care expenses for children in detention.

The gross deficiency of \$60.9 million represents the retiree health costs of the approximately 3,900 employees who participated in the Retirement Incentive Program (RIP). The budgeted appropriation for this fringe benefit account was not previously adjusted for these costs under PA 09-3 JSS and PA 09-7 SSS.

**Department of Revenue Services**

<b>OPM Net Deficiency (\$0)</b>	<b>OFA Net Deficiency (\$2,000,000)</b>
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The Department of Revenue Services has a projected net deficiency of \$2.0 million, which represents 2.8% of its FY 10 appropriation of \$72.9 million. This assumes that holdbacks totaling \$12.2 million for the agency are not released. If the holdbacks were released, the estimated deficiency would be eliminated.

The deficiency of \$2.0 million in the Other Expenses account is due to maintaining ongoing contractual obligations. The contracts support the department's Integrated Tax Administration System (ITAS) and other information systems.

**Department of Administrative Services**

<b>OPM Net Deficiency (\$0)</b>	<b>OFA Net Deficiency (\$1,314,068)</b>
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The Department of Administrative Services has a projected net deficiency of \$1.3 million, which represents 3.0% of its FY 10 appropriation of \$43.2 million. This assumes that holdbacks totaling \$4.7 million for the agency are not released. If these holdbacks were released, DAS would not incur a deficiency.

The deficiency is the result of maintaining current contract requirements with the workers' compensation third party administrator. The Workers' Compensation Administrator account provides funding for the third party administrator contract for workers' compensation claims administration and medical case management.

**Department of Administrative Services - Workers' Compensation Claims**

<b>OPM Net Deficiency (\$0)</b>	<b>OFA Net Deficiency (\$2,000,000)</b>
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The Workers' Compensation Claims account has a projected net deficiency of \$2.0 million, which represents 8.1% of its FY 10 appropriation of \$24.7 million.

The deficiency is the result of three factors: a rollout of the FY 09 deficiency; increases in medical and indemnity costs; and several catastrophic medical claims.

Funding within the Department of Administrative Services Workers' Compensation Claims account is used to pay the workers' compensation claims costs for the legislative branch, the judicial branch and all executive branch agencies except the Departments of Correction, Public Safety, Children and Families, Developmental Services, Mental Health and Addiction Services, and the Department of Transportation/Department of Motor Vehicles Special Transportation Fund. These agencies have their own Workers' Compensation Claims accounts.

<b>Total OFA Net Deficiencies (\$205,916,940)</b>
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